ENVISION ARLINGTON FISCAL RESOURCES TASK GROUP
Meeting Minutes 7:30 PM 3/21/19

Senior Center Ground Floor Conference Room

ATTENDEES: Gordon Jamieson (Co-Chair), Heather Remoff, Mike Delisi, Janet Pagliuca, Pete Howard (Secretary)

1. Leadership Interviews: Gordon to arrange with Fire Chief. Gordon & Heather will conduct interview.

2. Invitations to meeting: Gordon to arrange with School CFO

3. Government Primer: Gordon has added the recent Advocate articles to the version on the town web site. It should be posted soon.

4. Mike & Gordon met with Select Board Member Dan Dunn to discuss the residential exemption. Dan was concerned with the effect on renters. Mike considered the case of a 10% exemption (Ref 1). He showed that for low assessed properties, renters would pay about the same as they would with no exemption. Renters of more valuable property would pay more. Dan does not want to consider this option until after the elections. Mike noted that Lexington has been studying this exemption for some time. Mike provided a 2017 report from Lexington (Ref 2). Lexington has not adopted this exemption.

5. The Candidate's Night on 3/27 is a chance to see the candidates answer questions and to talk to Town Meeting Members who are up for reelection.

6. Almost for sure, the water & sewer charge on the real estate tax bill will be gradually removed.

7. Mike went to a recent AHS Building Committee meeting. He reported that much time was spent on stadium rental income possibilities. He was assured that the Permanent Town Building Committee would oversee the construction process. This group has done very well with other recent building projects.

8. There was a general discussion of the exclusion/override vote. Preparation for this vote is urgent but nothing much can happen until after the local election on Sat 4/6. The Select Board must freeze the wording for the exclusion/override vote long before the election.

9. Warrant. Gordon walked the group through the 79 articles in the warrant (agenda) for the annual Town Meeting.

Next mtg Apr 18
Meetings monthly - 3rd Thursdays 7:30 PM - Usually in Senior Center

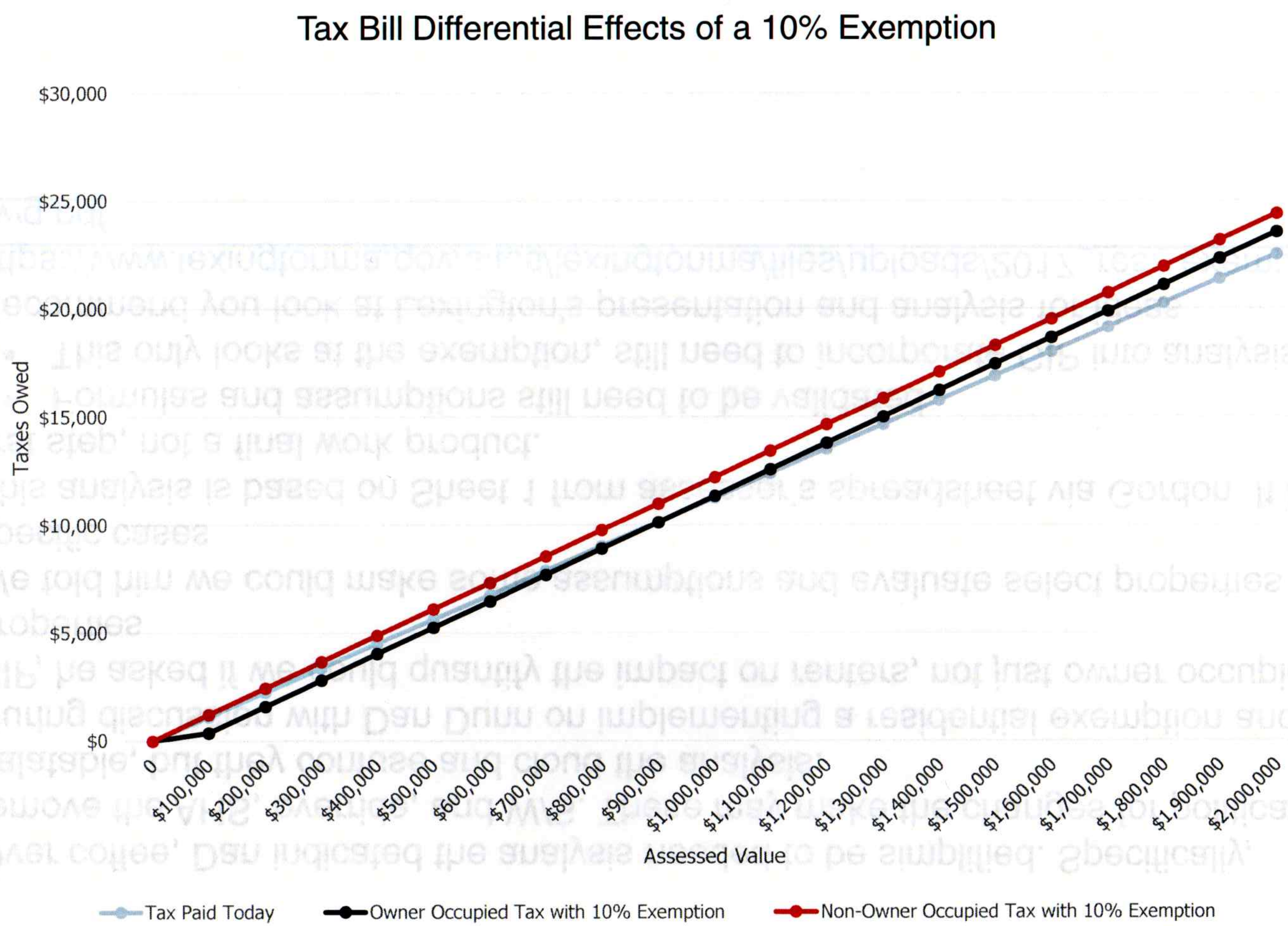
Ref 1 Residential Exemption Study
Ref 2 Lexington Residential Exemption Working Group Report

Ref 1

2019-03-21 Envision Arlington FRTG Meeting
Residential Exemption & CIP Discussion

- Over coffee, Dan indicated the analysis needed to be simplified. Specifically, remove the AHS, override, and W/S. These may make the changes for politically palatable, but they confuse and cloud the analysis.
- During discussion with Dan Dunn on implementing a residential exemption and CIP, he asked if we could quantify the impact on renters, not just owner occupied properties
- We told him we could make some assumptions and evaluate select properties as specific cases
- This analysis is based on Sheet 1 from assessor's spreadsheet via Gordon. It is a first step, not a final work product.
    - Formulas and assumptions still need to be validated
    - This only looks at the exemption, still need to incorporate CIP into analysis
- Recommend you look at Lexington's presentation and analysis for ideas
- https://www.lexingtonma.gov/sites/lexingtonma/files/uploads/2017_res._exemption_wg.pdf

% of the average value



Exemption	Tax Rate	Reduce Assessed Value By
0% Exemption	11.26	$0
5% Exemption	11.71	$35,000
7.5% Exemption	12	$53,000
10% Exemption	12.2	$70,000

Analysis of Residential Properties in Arlington

	A	B	C	D	E	F	G	H	I
1	https://www.mass.gov/files/documents/2016/08/wr/classificationcodebook.pdf								
2	**Residential C**	**Description**	**# units per pa**	**# of parc**	**# units**	**# rental u**	**Total Assessed Value**	**Parcel Average Assessed Valu**	**Rental Unit Average Assessed Valu**
3	13	Multiple Use, primarily residential		40	210	210	$43,997,100	$1,099,928	$209,510
4	31	Multiple Use, primarily commercial		35	235	235	$49,642,140	$1,418,347	$211,243
5	101	Single Family	1	7998	8020	22	$6,015,970,500	$752,184	$750,121
6	102	Condominium	1	3726	3754	28	$1,731,824,700	$464,795	$461,328
8	104	Two-Family	2	2183	4407	2224	$1,879,034,000	$860,758	$426,375
9	105	Three-Family	3	185	555	370	$169,358,300	$915,450	$305,150
13	109	Multiple Houses on one parcel		10	27	27	$11,486,500	$1,148,650	$425,426
14	111	Four to Eight Units	4 to 8	71	326	326	$71,972,800	$1,013,701	$220,775
15	112	More than Eight Units	8+	65	2288	2288	$376,559,400	$5,793,222	$164,580
16	**Totals**			**14347**	**19822**	**5730**	**$10,355,704,740**	**$721,803**	**$522,435**
17									
18									
19									
20	Grouping	**Description**		**# of parcels**	**# units**	**# rental units**	**Total Assessed Value**	**Parcel Average Assessed Value**	**Rental Unit Average Assessed Value**
21	A	Owner Occupied (Single Fam, Condo, etc)		11734	11801	77	$7,759,281,700	$661,264.85	$657,510.52
22	B	Owner Occupied + Rental (2 or 3 Family)		2368	4962	2594	$2,048,392,300	$865,030.53	$412,815.86
23	C	Full Rental Property (No Exemption Possible)		211	3059	3059	$542,171,440	$2,569,532.89	$177,238.13
24				**14313**	**19822**	**5730**	**$10,349,845,440**	**$723,108**	**$522,139**

Formulas used in Excel:

\# of parcels = COUNTIF(Sheet1!P:P,'Rental Assessment Summary'!A3)

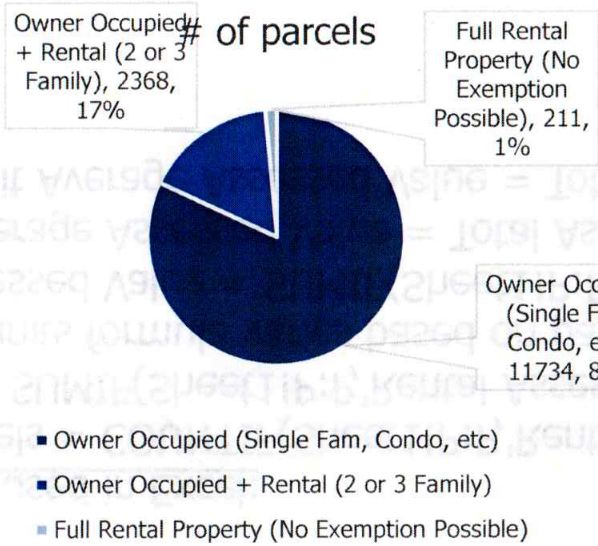
\# units = SUMIF(Sheet1!P:P,'Rental Assessment Summary'!A3,Sheet1!AA:AA)

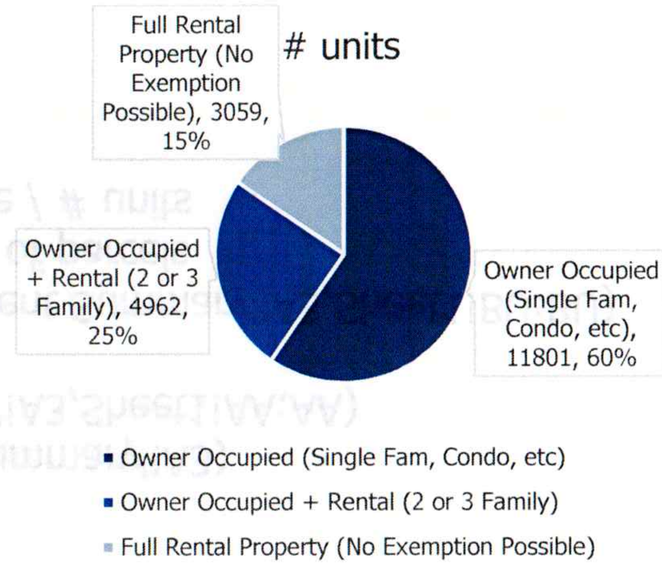
\# rental units formula varies based on parcel type

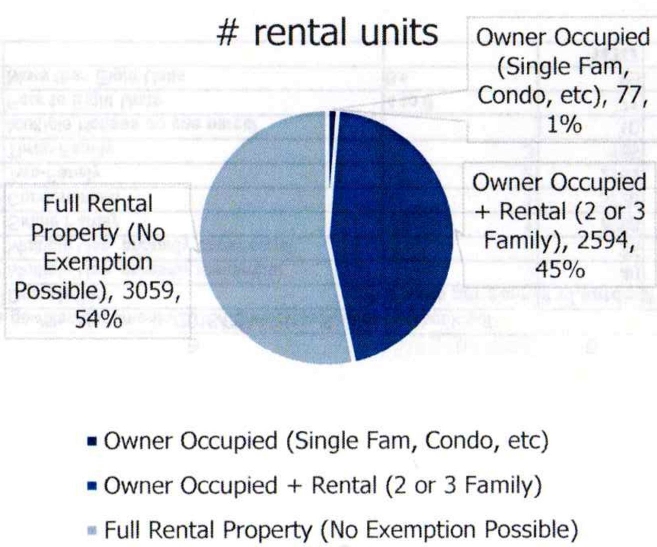
Total Assessed Value = SUMIF(Sheet1!P:P,'Rental Assessment Summary'!A3,Sheet1!BU:BU)

Parcel Average Assessed Value = Total Assessed Value / # of parcels

Rental Unit Average Assessed Value = Total Assessed Value / # units







BLUF Impact of 10% Exemption:	**Average Annual Tax Impact Per Unit:**
Owner Occupied (Single Fam, Condo, etc)	-$235.94
Owner Occupied + Rental (2 or 3 Family)	-$19.50
Full Rental Property (No Exemption Possible)	$166.60

Assumes all 2-3 multifamilies are owner occupied and will benefit from residential exemption

Ref 2

Lexington

The Residential Exemption

Preliminary Report of Selectman Pato's Residential Exemption Working Group

30 October 2017

Working Group Participants

Vicki Blier

Patricia Costello

Glenn Parker

Joe Pato

John Bartenstein

Andrei Radulescu-Banu

Our Presentation

- General Comments on the Residential Exemption
- Discussion of Effects on Lexington
- Conclusions and Recommendations

What is the Residential Exemption?

- Local option property tax exemption.
- Applies to all owner-occupied properties.
- Tax rate increases to make the exemption revenue-neutral
- All residential taxpayers pay the higher tax rate, but only owner-occupied properties receive the exemption.
- Commercial properties not affected.

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This is a local property tax option to provide an exemption to all owner-occupied homes. Properties that are not owner-occupied do not qualify. The decision to adopt this option is made by the Selectmen at the annual Tax Classification Hearing.

In order to keep the exemption revenue-neutral, the tax rate is increased. All residential parcels are taxed at the new, higher rate, but only owner-occupied homes receive the exemption.

The effect is to reduce taxes on owner-occupied homes with valuations below a break-even point, and to increase taxes on homes above the break-even point. All residential properties that are not owner-occupied will also receive a tax increase.

Commercial properties are unaffected by the residential exemption.

How much is the exemption?

- 0% to 35% of the Town's average residential parcel.
- Fixed dollar amount is deducted from each eligible property assessment.

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The exemption amount is based on a percentage of the Town's average residential assessment. The Selectmen choose a factor between 0% and 35% of the average residential assessment and the resulting number becomes a fixed dollar amount that is deducted uniformly from the assessments of each eligible property before tax rate is applied.

Impacts by Property Type

Tax Decrease

- Owner-occupied homes valued below the break-even point

Tax Increase

- Owner-occupied homes valued above the break-even point
- All non-owner-occupied properties

All owner-occupied homes below the break-even see a decrease

Properties seeing an increase are owner-occupied homes with valuations above the break-even point and all non-owner-occupied properties.

A non-owner occupied property is any residentially zoned parcel that is not the primary residence of the owner. Included are apartment buildings, (but not individual owner-occupied condo units), second homes, rented-out homes, homes belonging to relatives who don't live there, homes in trusts without a beneficial interest or life estate for the resident (such as the so-called Medicaid Trusts), side lots and undeveloped residential land. Multi-family homes where one unit is the primary residence of the owner, however, are considered owner-occupied.

What is the break-even point?

- The break-even-point equals the total assessed value of all residential properties divided by the number of owner-occupied properties.
- The break-even-point is higher than the average assessed value.
- The higher the owner-occupancy rate, the lower the break-even point.

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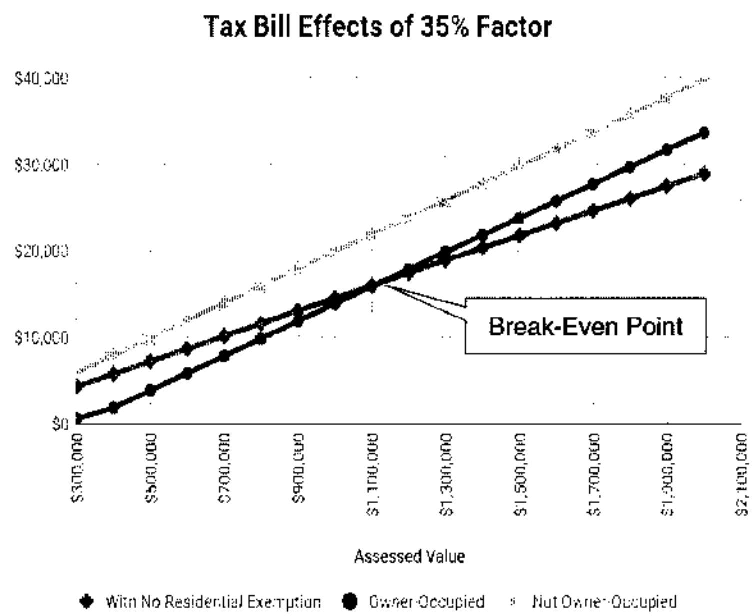
We referred to a break-even point. The break-even point is the total assessed value of all residential property divided by the total number of owner-occupied homes.

This number is higher than the average residential property value and it increases as the number of owner-occupied properties decreases.

The tax bill differential increases with the distance from the break-even point



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The blue diamond line shows what the tax bills look like now, without a residential exemption. The red dot line shows the effect of a 35% factor residential exemption on owner-occupied tax bills.

The yellow star line shows the effect on tax bills for properties that don't qualify for the exemption.

The break-even point is where the blue diamond and red dot lines cross. That is the house value that neither increases nor decreases with a residential exemption.

The difference in tax bills for those who qualify for the exemption increases with distance from the break-even point.

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How is the owner-occupancy rate estimated?

Traditional, Conservative Methodology:

- Match property address to billing address.
- Yields Lexington Assessor's estimate of 95%

Alternative Methodology:

- Correlate Town Census to property record.
- Yields estimate of about 80%

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Cities and towns do not have a mechanism for recording whether the occupant of a home is the home's owner, so owner-occupancy must be estimated. When a community implements the residential exemption, they institute a procedure for determining a property's owner occupancy status that can involve a property owner applying for or proving owner-occupancy status.

For the annual tax-rate setting, the Town Assessor's Office takes a conservative approach that assumes properties are owner-occupied if the property address and billing address match. This has yielded a high estimate for the rate of owner-occupancy at approximately 95%.

The Working Group's analysis took an alternative approach to estimating owner-occupancy by correlating Town Census data with owner records yielding an owner-occupancy rate of approximately 80%.

The owner-occupancy rate is an important factor in analyzing the effects of the residential exemption. We caution that both of these methods on this slide only estimate the actual rate and that ultimately owner-occupancy will be determined by direct contact with property owners.

FY2017 Estimated Break-Even-Point for Lexington

- $1,119,000
- Alternative methodology

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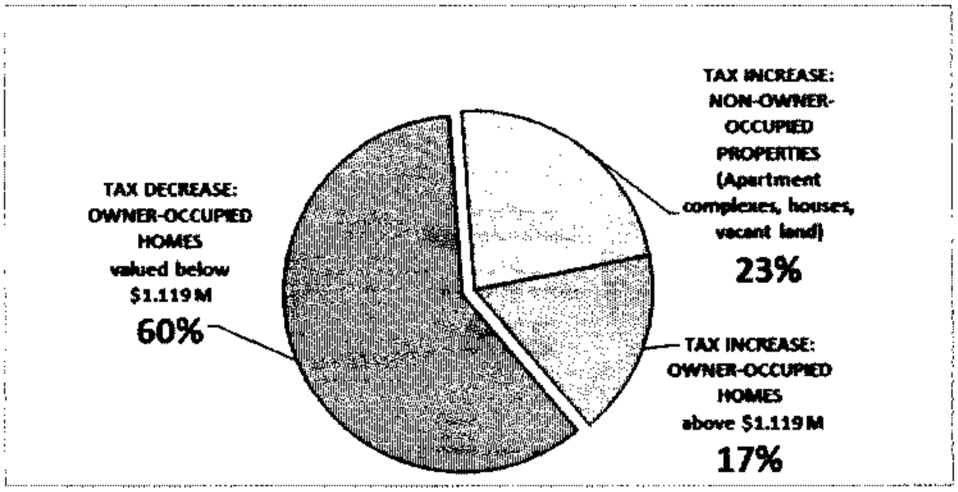
Using the alternative methodology, the working group came up with a rough estimate of $1,119,000 for the break-even point, using FY2017 data.

All Residential Properties

Distribution of Property Tax Increases and Decreases



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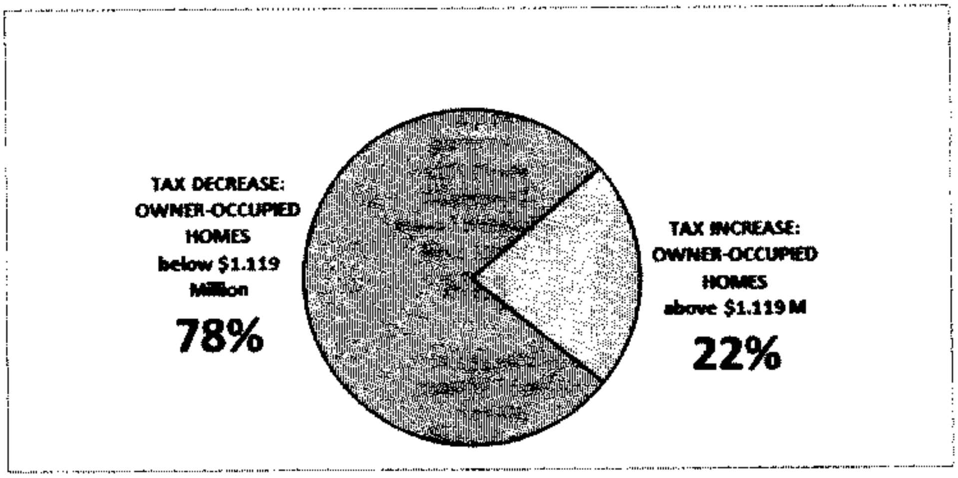
With this break-even point, 60% of all owner-occupied homes would see a sliding scale tax decrease.

17% of all owner-occupied homes would see a sliding scale tax increase.

23% of our residential parcels are not owner-occupied. These apartment complexes, second homes, etc. would all be taxed at the new, higher tax rate. This would not be a sliding-scale increase.

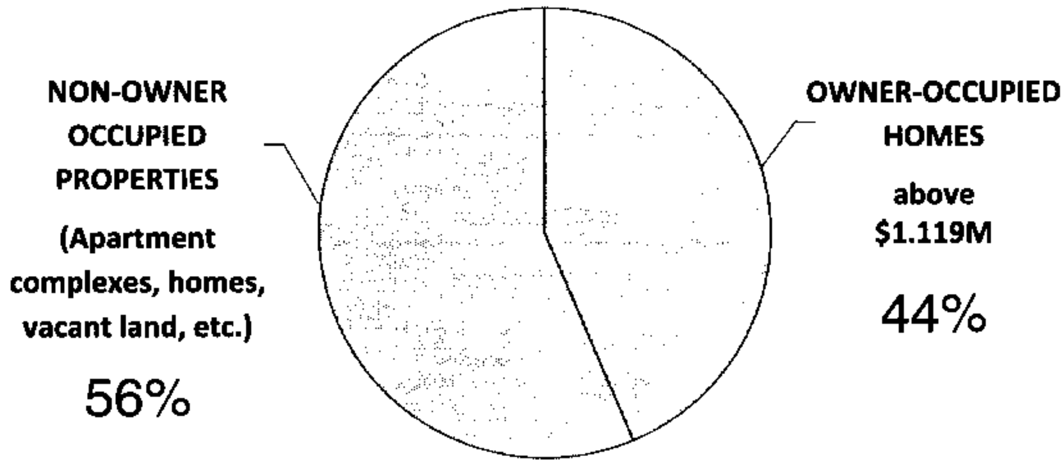
Owner-Occupied Homes

Above and Below the Break-Even Point



Looking at just owner-occupied homes, we see that 78% of them are valued below the break-even point and would see a sliding scale tax decrease. Another 22% are above the break-even, and would see a sliding scale increase.

Distribution of Tax Increases



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Looking just at those properties that will see a tax increase: 44% of them are owner-occupied. The remaining 56% are the apartment buildings, second homes, etc.

Owner-Occupied Properties

Approximate Tax Bills with a Residential Exemption

At 10% and 35% factors for FY17

	Standard Taxation $14.50 tax rate No exemption	10% Factor $15.72 tax rate $86,698 flat exemption	35% Factor $19.89 $303,443 flat exemption
$600,000 home	$8,700	$8,068	$5,900
delta		$632 reduction	$2,800 reduction
$1,119,000 home (break-even)	$16,226	$16,226	$16,226
		No change	No change
$2,000,000 home	$29,000	$30,072	$33,751
Delta		$1,072 increase	$4,752 increase

Here's what the actual tax bills for owner- occupied homes might look like with a 10% factor and a 35% factor. A $600,000 home would get a reduction in tax of $632 at 10% and $2,800 at 35%. The break-even home would see no change, and the $2 Million home would see increases of $1,072 and $4,752.

Non-Owner-Occupied Properties

Approximate Dollar Impacts

At 10% and 35% factors for FY17

	Standard Taxation $14.50 tax rate No exemption	10% Factor $15.72 tax rate No exemption	35% Factor $19.89 tax rate No exemption
$600,000 property	$8,700	$9,431	$11,936
delta		$731	$3,236
$1,119,000 property	$16,226	$17,588	$22,261
delta		$1,362	$6,035
$2,000,000 property	$29,000	$31,435	$39,787
delta		$2,435	$10,787

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All non-owner-occupied properties, including properties at the break-even value, would see an increase in their tax bill. These properties are subject to the increased tax rate, but do not get the exemption.

A $600,000 property would see an increase of $731 at 10% and $3,236 at the 35% factor. Tax bills for $2 Million properties would see increases of $2,435 and $10,787.

Property tax reductions by age group

Seniors appear to have a greater benefit from application of the residential exemption.

Homes with all residents over age 60:

- 75% of homes with only seniors see a reduction in the tax bill.

Homes with all residents under age 60:

- 55% will see a reduced property tax bill.

A preliminary review of property addresses by age shows that 75% of senior-only households will benefit from the residential exemption. 55% of Lexington homes where all residents are are under age 60 will see a property tax reduction.

Conclusion

- First step in getting a better understanding of the residential exemption.
- Implementing the Residential Exemption has potential to:
  - Provide tax relief to more seniors and a larger number of residents than previously expected
  - Ameliorate the effects of possible overrides and debt exclusions on lower value homes but magnify the effects on higher value homes or non owner-occupied properties

This is just a first step toward gaining a new understanding of the the residential exemption under today's home values, owner-occupancy rates and demographics.

It looks like more residents, especially seniors, will benefit than had previously been expected. This is a tool that can be used to soften the effect of potential property tax increases on our lower-valued homes.

Recommendation

- Deeper study of the data is needed
- Policy implications should be examined
- Recommend an Ad Hoc Committee to explore policy consequences, gather community feedback, and make policy recommendations to the Selectmen.

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We recommend that the Selectmen appoint a broad Ad Hoc Committee to take a deeper look at the data, study the policy consequences, gather community feedback and make recommendations to the Selectmen.